

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

P.O. Box 15129, Sacramento, CA 95851-0129 (916) 852-1673

December 23, 2003



Mr. Tom Carter
Operations Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, California 95630-4710

Dear Mr. Carter:

The Transmission Agency of Northern California (TANC) submits the following comments in response to the Western Area Power Administration (Western), Sierra Nevada Region Federal Register Notice dated December 2, 2003 (FR Doc. 03-29984), regarding post 2004 operating decisions.

TANC is a California joint powers agency consisting of fifteen utility Members, all of which serve retail electric load in California. TANC owns approximately 80 percent of the California-Oregon Transmission Project (COTP), one of the 500-kV AC Interties with the Pacific Northwest. We also hold 300 MW of firm bidirectional transmission rights through Path 15 from Pacific Gas and Electric Company (PG&E), pursuant to the South of Tesla Principles. All of TANC's Member-owners are preference customers of Western, consistent with Reclamation law.

Since the COTP is operationally integrated with the existing Pacific AC Intertie, TANC has a vital interest in how Western decides to operate its system after 2004. TANC, as Project Manager for the COTP, is committed to providing reliable, cost effective transmission service to its Members.

1. Western Must Continue to Pursue a Control Area in Parallel with Negotiations.

PG&E has continued to indicate its desire to terminate existing Intertie agreements effective December 31, 2004, thereby forcing Western (and TANC, among others) to develop new operating arrangements for the post 2004 time frame. TANC generally concurs with most of the analyses and criteria that Western utilized in its Federal Register consideration of future alternatives. We note, however, that the only option that clearly meets all of the five Western decision criteria was to form a new Western control area. To effectively negotiate a subregional control area, we strongly recommend and request that Western continue to actively pursue its own control

area option, so that if negotiations are unfruitful early in 2004, Western would still have sufficient time to file for a new control area at the WECC.

We understand that the metering, planning and operational staffing work necessary to operate a new Western control area has been nearly completed. The prudent business decision should therefore be to continue to have the full control area capability available for 2005 and beyond.

2. TANC Concur with Western's Proposal to Reject the No Action, PTO and MSS Options

TANC concurs with the recommendations provided in the Western Federal Register notice to reject the No Action, Participating Transmission Owner and Metered Sub System options as failing to meet the Western criteria. The No Action option is clearly unacceptable to Western and its preference customers, since it would place Western and its customers at the mercy of the unstable California ISO Tariff, transmission and ancillary service spot markets, a choice that has been demonstrated to be very unsatisfactory. The No Action alternative would not result in prudent, efficient use of Western's assets and would minimize the value to Western's customers. The No Action alternative obviously fails to meet any of the five decision criteria. Western would not be able to meet its Reclamation law and other statutory obligations.

Similarly, the PTO option fails to meet the five criteria proposed by Western. TANC believes that Western's characterization of "Almost Meets" for Durability and Cost Effectiveness and "Meets" for Flexibility should have all been indicated to be "Does Not Meet" based upon our experience to date in dealing with the California Independent System Operator (CAISO), its excessive costs and its frequently changing Tariff structures. The PTO option should have been shown as "Does Not Meet" for all of the five criteria. The record clearly shows that the CAISO has not been cost effective. Benchmarking studies and comparisons with other ISOs or similar organizations show the CAISO as more expensive than others. Similarly, the PTO option is more constrained than characterized because of 2 year TCA termination notice and other limitations imposed by the TCA.

TANC also believes that Western was far too generous in the Federal Register discussion with its "Meets" and "Almost Meets" characterizations of the criteria for the MSS option. Western should have shown the MSS option as Does Not Meet for all five criteria. The MSS option's benefits can be changed or negated by one Tariff change – something that the CAISO does with great frequency.

TANC is convinced that none of these three alternatives would allow Western to meet its Reclamation law obligations in a durable, cost effective and stable manner. While we believe Western was far too charitable and presumptive about the CAISO being durable, cost effective, flexible, certain and transparent, we do concur with the

Federal Register proposal to reject the No Action, PTO and MSS Options. We do not believe any of these options came close to meeting the Western criteria.

3. Western Correctly Seeks Durability via Contracts (not Tariffs)

Western's Federal Register recommends negotiations that would explore a sub regional control area option with either SMUD or the CAISO that would utilize a durable contract (not a changeable Tariff design). TANC concurs with the need for a durable contract. However, we question whether the CAISO can (even if it wants to) develop a durable contractual agreement that would not be subject to future Tariff changes. We note that the CAISO has filed a total of fifty-seven (57) major Tariff amendments to date, many of which make significant changes to the previous Tariff.

4. Legal Concerns

TANC is concerned that Western may, in effect, find itself and its transmission system coming under the jurisdiction of the Federal Energy Regulatory Commission (FERC), via a CAISO "sub regional" agreement. TANC questions whether Western can do this legally, in light of its Reclamation law and other statutory obligations. Any agreement between Western and the CAISO would be subject to FERC's jurisdiction and would have to be filed with and approved by FERC. FERC and/or the CAISO could presumably make substantive changes under the Federal Power Act. All of the CAISO's contracts or arrangements with third parties are tied to the ISO Tariff, which has been amended many times. Ultimately, TANC anticipates that only a SMUD sub regional control area (or a new Western control area) can meet the Western criteria and statutory obligations. For example, can the CAISO durably and cost effectively assure firm delivery of preference and Project Use Power to Western customers? Can the CAISO provide durable rates and costs? If the answers are no, then Western must quickly focus only on those remaining options that can be implemented in a durable and legally sound fashion—namely, the SMUD sub control area and the Western control area.

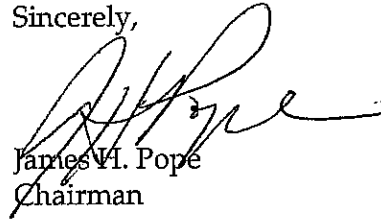
5. Time is of the Essence

TANC strongly encourages Western to remember that time is now very critical. Western has carefully considered its future options; at the end of the day, the only futures that can meet the Western statutory and other criteria are a new Western control area or a durable cost effective sub regional control area. Western must continue to move forward very quickly to put in place all of the necessary contractual and physical requirements necessary for any of these alternatives. We recommend that Western make a final choice of its future operating mode early in 2004 and that Western keep the full control area option moving forward in parallel with any negotiations.

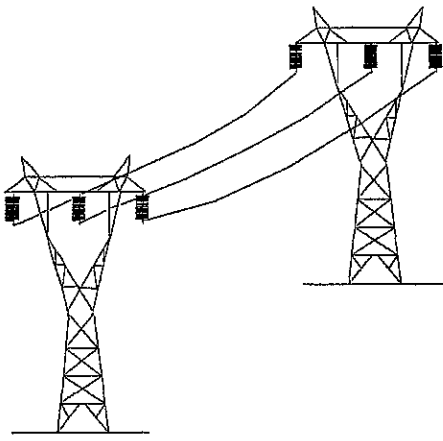
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TANC appreciates the opportunity to comment. We anticipate that the Members of TANC will also be filing detailed written comments and we commend Western for the work it has done to date on this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Pope", written over the printed name and title.

James V. Pope
Chairman



TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

P.O. Box 15129, Sacramento, CA 95851-0129 (916) 852-1673

December 31, 2003

Mr. Tom Carter
Operations Manager
Western Area Power Administration
Sierra Nevada Region
114 Parkshore Drive
Folsom, CA 95630-4710

Dear Mr. Carter:

The Transmission Agency of Northern California (TANC) hereby submits supplemental comments to the December 23, 2003 comments filed in response to the Western Area Power Administration (Western) Federal Register Notice dated December 2, 2003 (FR Doc. 03-29984) regarding Post 2004 operating decisions.

TANC and its Members own approximately 80 percent of the California-Oregon Transmission Project (COTP), one of the three 500-kV AC Interties that connect California with the power systems of the Pacific Northwest. Under the Congressionally approved agreements for the COTP, TANC serves as the COTP Project Manager. Western operates and maintains the COTP under agreements with TANC. It has been TANC's experience that Western provides excellent, cost effective operations and maintenance services.

TANC has received notice from the Pacific Gas and Electric Company (PG&E) that it intends to initiate a case at the Federal Energy Regulatory Commission to terminate the Coordinated Operations Agreement (COA) for the COTP on December 31, 2004. The COA provides for (among other things) the coordinated three-line operation of the COTP and the Pacific AC Intertie, thereby forming the California Oregon Intertie (COI) from the Oregon border into California. Western owns one of the two older Pacific AC Intertie 500-kV AC lines from Malin to Round Mountain. TANC finds itself very affected by the unilateral decision of PG&E to terminate the COA (and the companion and similar contracts with Western), which has resulted in the need for Western and its customers to carefully consider Post 2004 operating choices.

It is important to note that none of the decisions to terminate agreements were initiated by TANC, Western, or public power. Indeed, it is PG&E that is proposing to terminate existing agreements, with the encouragement of the California Independent System Operator. As a result, any cost "shifts" that may ultimately arise, need to be measured

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against PG&E's actions to terminate agreements that have worked reliably for many years.

TANC also recommends that Western include the COTP in the Western control area, or any sub regional control area that may be ultimately developed by Western. In addition to TANC's large share of ownership, the COTP is owned by Western and other preference customers, and provides services to the Central Valley Project and its pumping loads. The COTP, therefore, logically belongs with Western and a Western control area (or sub regional control area).

TANC prefers a more traditional, contract-based control area approach for COTP operations and maintenance. Such an approach has provided Western, TANC, and TANC's Members with over 10 years of reliable service on a cost effective basis.

TANC looks forward to working with Western on these important Post 2004 matters.

Sincerely,

James H. Pope
Chairman